

Audit of the USAID-Financed Yungas Development Initiative

Audit Report No. 1-511-02-012-P

July 5, 2002

San Salvador, El Salvador



RIG/San Salvador

July 5, 2002

MEMORANDUM

FOR: USAID/Bolivia Director, Liliana Ayalde

FROM: Acting Regional Inspector General/San Salvador, Steven H. Bernstein

SUBJECT: Audit of the USAID-Financed Yungas Development Initiative
(Report No. 1-511-02-012-P)

This memorandum is our report on the subject audit. It does not contain any recommendations for your action.

In finalizing the report, we considered your comments on our draft report. Your comments are included in their entirety in Appendix II.

I appreciate the cooperation and courtesy extended to my staff during the audit.

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Summary of Results

The Regional Inspector General/San Salvador conducted an audit to determine how program funds were spent and whether the Yungas Development Initiative was on schedule to achieve planned outputs. Also, the audit was to determine if USAID/Bolivia implemented a monitoring system in accordance with USAID policies (page 3).

The results of the audit indicated that USAID/Bolivia spent approximately \$3.3 million through December 31, 2001 on six activities and their oversight (page 4) and that the Yungas Development Initiative was not on schedule to achieve planned outputs (page 4). USAID/Bolivia monitored the quality, timeliness and environmental impact of outputs in accordance with USAID policies (page 5). Since the causes behind delays in achieving planned outputs have been resolved and because the Mission has already taken action to speed up impacted activities, we are not making a recommendation (page 5).

In responding to the draft audit report, USAID/Bolivia management agreed with the report and its findings (page 6).

Background

On July 13, 2000, the U.S. Congress appropriated \$869 million in supplemental funding, known as Plan Colombia, to the U.S. Department of State, of which \$80 million was allocated to USAID in support of its counternarcotic efforts in Bolivia. USAID/Bolivia received funding in December 2000, and as of December 31, 2001, has committed approximately \$25.9 million to support its Yungas¹ Development Initiative (YDI). The government of Bolivia plans to contribute about \$31.7 million in support of USAID's counternarcotic efforts, including the YDI.

YDI contributes to the Mission's strategic objective entitled "Illegal and excess coca eliminated from Bolivia." The initiative includes four components, three of which are extensions of current Mission programs in health, democracy and agriculture marketing. The fourth component is the establishment of a Community Development Fund that will provide grants and co-financing for productive infrastructure development, road maintenance and other investments identified by participating communities that will enhance the quality of life in the Yungas.

¹ The Yungas is a sub-tropical region covering an area of 15,058 square miles near the capital of Bolivia, La Paz. It has a population of approximately 245,000 people.

Audit Objectives

The Regional Inspector General/San Salvador included an audit in its fiscal year 2002 audit plan to answer the following questions:

- How have USAID/Bolivia funds been spent under the Yungas Development Initiative?
- Is the USAID/Bolivia-financed Yungas Development Initiative on schedule to achieve planned outputs?
- Did USAID/Bolivia implement a monitoring system for its Yungas Development Initiative in accordance with USAID policies?

Appendix I describes the audit's scope and methodology.

Audit Findings

How have USAID/Bolivia funds been spent under the Yungas Development Initiative?

Funds were spent under the Yungas Development Initiative on six activities and their oversight as follows:

No.	Brief Description	Committed as of December 31, 2001 (Unaudited)	Expended ² as of December 31, 2001 (Unaudited)
1	Infrastructure – Roads and Bridges (Roads)	\$6,253,921	\$ 364,436
2	Community Development Fund (CDF)	9,956,545	1,475,670
3	Infrastructure – Electrification	1,900,000	0
4	Technical Assistance- Agriculture Market Development (Market Access)	3,600,000	187,054
5	Technical Assistance – Municipal Government Management (Democracy)	800,000	133,496
6	Health Activities (Health)	2,500,000	942,976
	Activity Oversight	913,486	147,179
		\$25,923,952	\$3,250,811

² Expended equates to amounts disbursed and accrued as reported by USAID/Bolivia's financial management system.

Is the USAID/Bolivia-financed Yungas Development Initiative on schedule to achieve planned outputs?

The Yungas Development Initiative is not on schedule to achieve planned outputs.

Planned versus achieved outputs as of December 31, 2001, are included as Appendix III. As illustrated in this Appendix, 13 of the 19 outputs (or 68 percent) had achieved at least 90 percent of their planned targets as of December 31, 2001. Six outputs, all related to Health activities, achieved less than 90 percent of their planned targets. For example, the Health activity implementor planned to construct ten school latrines by December 31, 2001. However, only four (or 40 percent) were constructed. As a result, the intended beneficiaries did not receive the planned level of benefits.

Planned targets for the six outputs were not achieved primarily due to delays in the initial implementation of activities. Initial implementation was scheduled to begin soon after the award became effective in April 2001, but local bureaucracy delayed implementation until June 2001. For example, it took longer than anticipated to get local governments to agree on the specific activities to be undertaken and provide titles so that the activities could proceed. In addition, according to a December 2001 activities progress report prepared by one of the implementing partners, social unrest in the Yungas resulted in roadblocks and in implementing agencies that were associated with alternative development activities being asked to leave the area.

Although the intended beneficiaries did not receive the planned level of benefits by December 31, 2001, we are not making a recommendation for three reasons. First, according to USAID/Bolivia officials, as of the end of May 2002, the social unrest in the Yungas has stabilized. Secondly, the initial issues with the local bureaucracy have been resolved by coming to agreements with local governments and/or changing site locations. Third, since the initial delays, both the Mission and implementers have taken steps, such as planning to hire an additional engineer to design, supervise, and inspect the construction activities, to speed up implementation in calendar year 2002. As a result, the Mission and its implementing partners are confident that future outputs will be reached in a timely manner. We believe that this is feasible because the construction of latrines (relating to 4 of the 6 affected outputs) is relatively simple and the quantity to be constructed is not significant.

Did USAID/Bolivia implement a monitoring system for its Yungas Development Initiative in accordance with USAID policies?

USAID/Bolivia implemented a monitoring system in accordance with USAID policies to track program outputs for all active agreements.

In accordance with Automated Directives System 202.3.4, USAID/Bolivia implemented a monitoring system that included the following general components:

- developing Contract Monitoring Plans,
- reviewing performance and financial reports,
- monitoring the quality and timeliness of key outputs and
- monitoring positive or negative environmental impacts.

To perform day-to-day monitoring, USAID/Bolivia hired a Personal Services Contractor to perform regular oversight of all Yungas Development Initiative activities. Other USAID/Bolivia officials, such as activity managers, implement a monitoring system that includes the review of financial and performance reports, regular contact with program implementers, and frequent site visits. In addition, for particularly risky activities, such as the roads and bridges activity, USAID/Bolivia contracted an independent construction supervisor. At the time of audit, monitoring efforts were just beginning to get underway.

Additionally, in accordance with Automated Directives System 204.5.4, USAID/Bolivia implemented a system to monitor environmental impacts of the Yungas Development Initiative. Under the system, current activities received an environmental impact assessment. In these assessments, potential environmental impacts such as erosion, waste disposal, and water quality degradation that could occur at local project sites were assessed and mitigation proposed.

Management Comments and Our Evaluation

USAID/Bolivia, in its comments to our draft report, agreed with the report and its findings.

**Scope and
Methodology****Scope**

The Regional Inspector General/San Salvador conducted this audit, in accordance with generally accepted government auditing standards, to determine how USAID/Bolivia expended funds under the Yungas Development Initiative (YDI), whether planned outputs were achieved, and if USAID/Bolivia implemented a monitoring system in accordance with USAID policies.

The audit covered all activities committed by USAID/Bolivia, and the outputs achieved, from the beginning of the YDI on March 16, 2001³ to December 31, 2001. As of December 31, 2001, commitments and expenditures were \$25.9 million and \$3.3 million, respectively. The audit was conducted at USAID/Bolivia from February 25, 2002 through March 12, 2002.

We assessed risk exposure and the effectiveness of USAID/Bolivia's management controls for ensuring that the YDI was on schedule to achieve planned outputs. We interviewed USAID/Bolivia officials and reviewed the following management controls: 1) Mission's self-assessment of its adherence with the Federal Managers' Financial Integrity Act of 1982, as reported in its October 2001 report, 2) contracting with outside parties to assist in the oversight of the YDI, 3) monitoring for results under its Performance Monitoring Plan, 4) obtaining progress reports from implementors, 5) maintaining regular contact with implementors, and 6) performing site visits.

Methodology

In conducting the audit, we interviewed Mission management personnel and reviewed implementing agreements, work plans, progress reports, and other project documentation.

For the first objective, we examined Mission-generated financial reports and implementing agreements to determine how program funds were spent.

For the second objective, we reviewed activity documents and interviewed Mission managers to determine the planned and actual outputs as of December 31, 2001. We then verified selected targets achieved by reviewing completed products, such as workplans. We judgmentally selected the outputs to verify (5 of the 19, or 26 percent) based on the results of our management control assessment. Specifically, we determined that the extensiveness of audit tests necessary was low. We examined outputs that could be verified by reviewing completed products maintained at USAID/Bolivia.

³ March 16, 2001 was the date that an amendment to an agreement between USAID and the Government of Bolivia, which added the YDI, was signed.

We considered the program to be on schedule if 90 percent of the planned outputs were at least 90 percent achieved. This threshold reflected our judgment about the level of performance that was practical and achievable for the audited activities.

For the third objective, we tested all open contracts or grants to determine whether USAID monitored the agreement during the 2001 calendar year as required by USAID policies.

We identified four monitoring measures that we judged to be a minimum level of monitoring required by USAID policy, the Automated Directives System (ADS). To determine the significance of our findings, our opinion would be based upon the following monitoring measures for contracts and grants:

- for contracts, the Mission developed a Contract Monitoring Plan ADS 202.3.4.1);
- for contracts and grants, the Mission reviewed performance and financial reports from the implementers (ADS 202.3.4.1 and 22 CFR 226.51);
- for contracts and grants, the Mission assessed the quality and timeliness of key outputs (ADS 202.3.4 and 22 CFR 226.51); and
- for contracts and grants, the Mission obtained and reviewed reports that show changes in environmental quality, positive or negative, during the implementation of the activity (ADS 204.5.4 and 22 CFR 216).

Our opinion would be adverse if less than 85 percent of the contracts and grants we reviewed met the four monitoring measures mentioned above. Our opinion would be qualified if 85 percent but less than 95 percent of the contracts and grants we reviewed met the four monitoring measures. Our opinion would be unqualified if 95 percent or more of the contracts and grants we reviewed met the four monitoring measures. The percentages are a matter of auditor's judgment.

**Management
Comments**

UNITED STATES GOVERNMENT

Memorandum

FMO-02/218

Date : June 11, 2002

Reply to
Attn of : Wayne Nilsestuen [signed], Acting Mission Director

Subject : Audit Report 1-511-02-00X-P - USAID-Financed Yungas
Development Initiative

To : Timothy Cox, RIG/SS
Steven Bernstein, RIG/SS

This memorandum is our response to the draft report on subject audit, which contained no findings .

The Mission considers the audit report to be clear and complete in its presentation. However, we have one observation, on page 3, under Background. The report states: "...to the U.S. Department of State, of which \$69 million was allocated to USAID in support of its counternarcotics efforts in Bolivia". Please note that the total amount of Plan Colombia funds allocated to USAID/Bolivia's Alternative Development strategic objective was \$80 million of which \$69 were provided in a first tranche and \$11 million in a second tranche.

The Mission requests that the above clarification be included in the final Audit Report.

Planned and Actual Outputs

No.	Activity Name	Description of Output	Target Planned to be Achieved by 12/31/01	Target Achieved as of 12/31/01	Percentage Achieved*
1	Health	Cases of Leishmaniasis Diagnosed	293	299	102 %
2	Health	Cases of Leishmaniasis Treated	246	246	100 %
3	Health	Community Visits	283	235	83 %
4	Health	Cases of Tuberculosis Diagnosed	2,162	1,617	75 %
5	Health	Cases of Tuberculosis Treated	216	215	100 %
6	Health	Water Systems Constructed	3	2.9	97 %
7	Health	School Latrines Constructed	10	4	40 %
8	Health	Community Latrines Constructed	4	2.7	68 %
9	Health	Household Latrines Constructed	67	13.2	20 %
10	Health	Treatment Centers Constructed	2	1	50 %
11	CDF	University Workplan Completed	1	1	100 %
12	CDF	Proof of Registration for Students Receiving Scholarships	33	33	100 %
13	CDF	Coca Reduction Agreements Signed	6	6	100 %
14	Democracy	Workplan Completed	1	1	100 %
15	Market Access	Master Plans for Coffee, Tourism and Cash Crops Components Completed	3	3	100 %
16	Roads	Offices Opened	2	2	100 %
17	Roads	Offices Fully Staffed	2	2	100 %
18	Roads	Road/Bridges Construction Contracts Signed	4	4	100 %
19	Roads	Procurement Agent Contract Signed	1	1	100 %

* Shaded areas mean that less than 90 percent of the planned target was achieved.